

Message Text

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SUBJ: INTERAGENCY TASK FORCE TO DEVELOP A NATIONAL EXPORT POLICY

REF: STATE 95673

1. SUMMARY: ALTHOUGH WITH THE DECLINING VALUE OF THE DOLLAR, U.S. GOODS HAVE BECOME INCREASINGLY PRICE COMPETITIVE HERE, PARTICULARLY IN RELATION TO JAPANESE EXPORTS, U.S. FIRMS, NEVERTHELESS, STILL MAY BE FACED WITH AN OVERALL COMPETITIVE DISADVANTAGE BECAUSE OF NON-COMPETITIVE FINANCING AND HIGHER TRANSPORTATION COSTS. WE SUGGEST IMPROVED FINANCING, REVERSE TRADE AND INVESTMENT MISSIONS, DESIGN OF TRADE PROMOTION PROGRAMS SO THAT ONLY U.S. FIRMS BENEFIT, EQUALIZATION OF VALUE ADDED TAX REBATES, AND FINANCING OF FEASIBILITY STUDIES. END SUMMARY.

2. WITH INTEREST COSTS OFTEN EXCEEDING 20 PERCENT, FINANCING IS A KEY FACTOR TO SALES IN A CAPITAL-SCARCE MARKET SUCH AS INDONESIA. WE RECOMMEND THEREFORE AN EXPANDED ROLE FOR THE EXIMBANK.

A. SEVERAL EXIM POLICIES AND PRACTICES HAVE LIMITED EXIM LENDING IN INDONESIA WHICH HAS DECLINED SINCE 1975. FOR UNCLASSIFIED

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EXAMPLE, EXIM'S REQUIREMENT HAS THE PRACTICAL EFFECT OF LIMITING EXIM LENDING TO GOVERNMENT PROJECTS, ELIMINATING EXIM SUPPORT FOR ALL SALES TO PRIVATE PARTIES. EXIM TERMS OFTEN DO NOT MATCH THOSE OFFERED BY ITS COMPETITOR INSTITUTIONS. FCIA INSURANCE IS LIMITED TO \$200,000. BUSINESSMEN AND OFFICIALS COMPLAIN THAT EXIM PAPERWORK IS BURDENSOME.
B. WE SUGGEST THAT EXIM STATION MORE PERSONNEL ABROAD.

THEY WOULD BE ABLE BOTH TO PROVIDE ON THE SPOT ASSISTANCE TO U.S. EXPORTERS AND ALSO TO EVALUATE BETTER THE CREDIT-WORTHINESS OF FOREIGN PURCHASERS. IN ADDITION, COMMERCIAL OFFICERS NEED MORE TRAINING IN EXIM PROGRAMS AND PROCEDURES IN ORDER TO COUNSEL BUSINESSMEN AND COULD BENEFIT FROM ASSIGNMENTS TO EXIM IN WASHINGTON.

3. AMERICAN EXPORTERS ARE AT A DISADVANTAGE WITH REGARD TO SHIPPING COSTS TO INDONESIA. FOR EXAMPLE, THE COST TO SHIP AN AUTOMOBILE FROM THE WEST COAST OF THE U.S. TO INDONESIA IS ABOUT \$1900. IN CONTRAST, THE COST FROM NAGOYA IN JAPAN IS SLIGHTLY LESS THAN \$400. DISTANCE DOES NOT EXPLAIN ALL OF THE DIFFERENCE. CONFERENCE RATES UNFAVORABLE TO U.S. EXPORTS ARE ALSO A FACTOR. A STUDY OF CONFERENCE RATES WITH A VIEW TOWARDS LOWERING SHIPPING COSTS FOR U.S. EXPORTS SHOULD BE MADE.

4. A TRADE PROMOTION TOOL WHICH THE USG MIGHT CONSIDER IS THE SPONSORSHIP OF REVERSE TRADE AND INVESTMENT MIS- SIONS. SOME OF OUR NATIONAL COMPETITORS HAVE APPLIED THIS TECHNIQUE QUITE SUCCESSFULLY IN CASES WHERE MAJOR PURCHASING OR INVESTMENT DECISIONS ARE INVOLVED. TRIPS TO THE USA BY GOVERNMENT OFFICIALS/LOCAL BUSINESSMEN WHO ARE MAKING MAJOR PURCHASING/INVESTMENT DECISIONS CAN PLAY A SIGNIFICANT ROLE IN ENHANCING A U.S. FIRM'S CHANCES OF WINNING CONTRACTS. THE USG, IN COMBINATION WITH INTER- UNCLASSIFIED

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ESTED U.S. TRADE ASSOCIATIONS, COULD PROVIDE TRAVEL/PER DIEM FUNDING FOR SUCH GROUPS.

5. FOREIGN FIRMS HAVE PRACTICALLY UNLIMITED ACCESS TO PUBLISHED U.S. TRADE PROMOTION INFORMATION SUCH AS OVERSEAS BUSINESS REPORTS, MARKET RESEARCH REPORTS, AND EVEN, THROUGH SUBSIDIARIES, THE TRADE OPPORTUNITIES PROGRAM (TOP). WE HAVE SEEN COPIES OF TOP NOTICES IN THE HANDS OF FOREIGN COMPETITORS. THE TASK FORCE SHOULD CONSIDER MORE SELECTIVE APPROACHES FOR DISSEMINATING INFORMATION ON TRADE AND INVESTMENT OPPORTUNITIES. IT SHOULD ALSO CONSIDER DEVELOPING TRADE PROMOTION PROGRAMS DIRECTED TO INDIVIDUAL U.S. FIRMS.

THE REBATE OF THE VALUE ADDED TAX AVAILABLE TO EEC EXPORTERS GIVES THEM A SIGNIFICANT PRICE ADVANTAGE. STUDY SHOULD BE GIVEN TO FINDING WAYS TO EQUALIZE THIS ADVANTAGE.

CURRENT USAID PRIORITIES RESTRICT THE IMPACT OF AID PROGRAMS ON U.S. EXPORTS. NEVERTHELESS WE RECENTLY SUGGESTED (JAKARTA 2156, STATE 254683 AND 190819, JAKARTA 1077) THAT USAID FUNDS COULD BE USED TO FINANCE FEASIBILITY STUDIES. OFTEN PROJECT IMPLEMENTATION IS INFLUENCED BY THE NATIONALITY

OF THE FIRM DOING THE FEASIBILITY STUDY, AS IT TENDS TO
WRITE SPECS. FOR EQUIPMENT WITH WHICH IT IS FAMILIAR,
I.E., FROM ITS OWN COUNTRY. FURTHERMORE, WORKING RELA-
TIONSHIPS ARE ALSO BUILT WHICH MAY LATER INFLUENCE
PROJECT AWARDS. WHILE OUR SPECIFIC SUGGESTIONS WERE
REJECTED, FURTHER CONSIDERATION SHOULD BE GIVEN TO USE
OF USAID OR OTHER FINANCING FOR FEASIBILITY STUDIES
WHICH COULD LEAD TO FOLLOW-ON CONSTRUCTION CONTRACTS AND
SALES OF EQUIPMENT.
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